High-Touch Meets High-Tech

How National Benefit Programs leverages buying power to add value to processors' and merchants' businesses

By John Manasso

Diane Vogt Faro, president

National Benefit Programs

Founded: September 2009

Location: Atlanta, Georgia

Business: The company provides benefits in 28 major business categories through more than 50 participating affiliated partners.

For six years, Gary Alloy lingered in a state of semi-retirement.

After years of running his ISO business, he grew disillusioned with the industry. He recalls fond memories of his entry into the payments business decades ago when ISOs could charge merchants 2 percent of a transaction and could earn even more by leasing equipment to them. Years of competition have cut that margin in half, he says, and the ability to charge for equipment also has gone away.

During his semi-retirement, Alloy kept three different portfolios from three different processors that he serviced when necessary, which was not often. He relaxed and enjoyed himself. All the while, he remained current on the latest industry news, reading the trade publications, and pondered perhaps the central question facing the industry: How is anyone going to make money only selling credit card processing?

The answer—National Benefit Programs (NBP)—was born in September 2009. The company works with payments processors on one side and creates benefit packages that help to make merchants' businesses more efficient via discounts with major corporations on the other. NBP has created partnerships with more than 50 companies, including UPS, Hewlett Packard, Office Depot, Sprint, and ADP. In all, the company has partners creating discounts for merchants in 28 major business categories.

NBP's processor partners include Merchant Warehouse and Prodigy Payment Systems. NBP has another agreement in the works with a major processor that it expects to announce in the fall. Alloy, who serves as chief executive officer, says that processors that partner with NBP have cut their attrition by 3 percent.

Foundations

While it took a while for NBP to gain traction, the company has enjoyed a 500 percent increase in business over the past 12 months, says Alloy.

"We're growing like kudzu," he says from his office, which sits about 15 miles north of downtown Atlanta.

When he first approached potential discount partners, Alloy had one unusual stipulation: He wanted the right to resell their products or services for less than anyone else but he wanted no commission. And as NBP adds new processors and increases volume, Alloy continues to negotiate for larger discounts.

While the company needed several years to get off the ground, it has picked up the pace recently with the addition of other payments industry veterans. In 2011, Diane Vogt Faro, who served on ETA's Board of Directors

for nine years and was president in 2004-2005, came on board.

Vogt Faro, a partner in NBP and the company's president, whose role is to oversee sales, says the target for NBP's discounts is the small-to-mid-sized merchant.

"We have exclusive contracts with some of these providers that we deliver merchants value that they depend on to run their businesses, their lives, and they can't do it on their own," she says. "They don't have the buying power. They can't walk into UPS and say, 'Will you give me the discount?' that we can."

Aside from essential services like payroll and shipping, NBP's partners also include car rental, legal, and travel companies. In some ways, the possibilities—and the potential size of the discounts—are limited only by the imagination.

"We continue to look at the verticals within these markets on how we can continue to work with vendors," says Vogt Faro. "We've got some key processors as our clients today, and… we continue talking every day to vendors or we go back to our existing vendors and we say, 'Hey, we're bringing you a lot of business. You need to look at the discount and improve upon it.'"

Technically Speaking

Not surprisingly, NBP's operation relies on a highly technical side—one that must link these vendors to the processors and the merchants themselves. NBP "white-labels" the websites for its customers, which can be expensive and time-consuming, depending on the level of customization needed. Some have taken as long as four months to complete. However, the IT team can complete relatively simple requests in about a week.

"Typically, the bigger the client, the more systems in place that we have to integrate with, and it just takes longer," says Rob Riggs, chief technology officer and the third partner in NBP. "But we do have the ability to really go custom or to really go streamline, in terms of the process and approach to the portal site that the merchants are logging into. So that's where there are some economies—when we're working with smaller clients versus larger."

NBP performs its IT work in-house, a process that began when Riggs joined the company. Previously, he ran a web development company and NBP was a client. That experience provided him with an inside look at the company's potential, which is why he says he elected to accept Alloy's offer to join.

"It blossomed really quickly," Riggs says. "That's been really encouraging to see the growth and the potential here, and it's caught our team's attention in terms of where we're heading. It's exciting."

Riggs says that the work that NBP does is so specialized that it requires a learning curve even for experienced programmers. His goal is to grow the systems not only to serve NBP's current clients but also to integrate the most recent technology to offer something that competitors do not.

"Hiring is a tremendous investment up front," he says. "It's a niche market in a niche industry, so it takes some-

body several weeks to really even get the process into the system. I can have a developer look at code and build bases, etcetera, but it can really take a while to grasp what we're doing."

In many ways, NBP represents a marriage of high technology with an old-fashioned approach. Alloy quotes a maxim that his father told him: Price is about the fifth most important thing in business, with service coming first. NBP also has a money-back guarantee—part of that commitment to service—that Alloy says the company has never had to use.

While it might be possible for a competitor to come along and try to duplicate what NBP has done, Alloy feels confident in his business model. With that old-school mindset, he knows one thing that cannot be duplicated is relationships. That is what he and Vogt Faro bring.

"It's almost impossible to get past the gatekeeper in this business," he says. "You have to know somebody and have a relationship with them, and we've had relationships over the years with a lot of these people. They know us, and they trust us.". ***TT***

John Manasso is a contributing writer to Transaction Trends. *Reach him at john_manasso@yahoo.com.*

WORDS TO THE WISE

- **Explore niches.** "People always say that the growth is not like it used to be," says National Benefit Programs President Diane Vogt Faro. "I don't buy any of that. I still think there are niche markets that need to be sought after. I believe in value-add, my program, other value-adds. We need to do what we've done for the major retailers in years past. We need to start looking at the unpopulated niche markets… and not just concentrate on the payments' side of the business. The payments side of the business will always be there, but we need to start looking at what we can do to lower attrition and retain our customers longer."
- **Focus on your marketing strategy.** Vogt Faro came from large corporations where the norm was to lay off marketing departments during periods of downsizing—a strategy with which she disagrees. She emphasizes the importance of networking at ETA events.

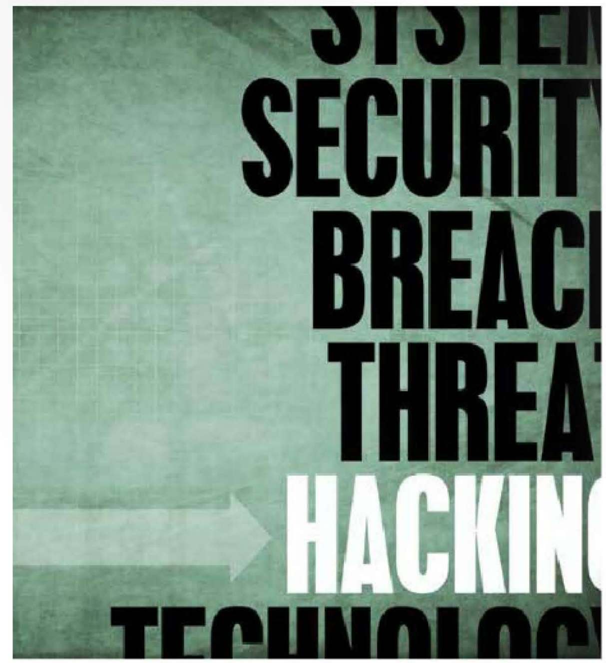
  "Early on coming into it, we didn't market ourselves properly," she says of NBP, "and I think marketing is key to telling your [story]. . . . [Large corporate layoffs] hit marketing, they hit areas where they think it's more frivolous. I think that hurts because people don't know who you are. . . . No one's just coming and knocking on our door because we're a value-add company. You need to be out there building relationships."
- **Delegate.** "Ten years ago, I would rather have done something myself and not pay someone $12 per hour or whatever," says NBP Chief Technology Officer Rob Riggs. "But what I found was that the more I released things into the hands of others—everyone's trying to do a good job—I [could] move onto something more strategic that I can spend my time on. At the end of the day, you're paying someone to do what you can do yourself, but it's really amazing what you can accomplish when other people are doing the lower-level work."

Why PCI Compliance Isn't Working

The industry needs two carrots, not two sticks

By Darrel Anderson, CIPP/C, CIPP/US, ETA CPP

After almost 10 years of applying the PCI compliance process across the industry value chain and trying to enforce data security and privacy tenets for merchants of all sizes, it has become abundantly clear that the "two-stick" model isn't working.



According to a ***Wall Street Journal*** article, "Hackers Shift to Small Firms," Visa estimates that 95 percent of data breaches today occur at small businesses. Other industry-related surveys provide similarly revealing statistics. For example, just 11 percent of small businesses are PCI compliant, and many of them fall out of compliance between assessments, according to Verizon's 2014 *PCI Compliance Report*. Meanwhile, 33 percent of businesses don't have a data protection plan in place, according to the Ponemon Institute's 2013 study, *Is Your Company Ready for a Big Data Breach?*, and 61 percent of small businesses don't even use antivirus protection on their systems, says Symantic's 2011 *SMB Threat Awareness Poll*.

Why have we failed so badly? You have to understand the typical two-stick compliance model merchant acquiring entities are using to answer that question. It goes something like this: "I have a carrot-and-stick model for encouraging data security compliance among my merchant customer base; except, there are no carrots, only sticks. Stick one is the process of PCI compliance. It is hard, confusing, and distracting from your core business, Mr. Merchant. The tools I provide are difficult to use, unclear, arbitrary, and in many cases unreliable. Stick two is fees, fines, and punishment. If you don't get past stick one, and you won't, I will hit you with stick two. If you have a data incident, we will penalize you and then probably abandon you. And if you are lucky, we'll provide you with insurance coverage, but in many cases, it will be payable to us first. Please sign here."

Changing the Model

The two-stick model treats our clients like adversaries, not partners. It assumes merchants are too distracted, or even too inept, to appreciate the seriousness of data security, privacy, and compliance. That's why I'm advocating we move to a "two-carrot" approach.

The first carrot is the process of compliance and security validation itself. We need to ensure it is easy for nontechnical business people to understand, and we need to give them adequate time to complete the program. Education during the process, and after, also is key, as is creating an overt benefit for their